

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
THE HELP II PROGRAM
EXECUTIVE SUMMARY**

Applicant:	Kings Rehabilitation Center, Inc. ("KRC") 490 East Hanford-Armona Road Hanford, CA 93230 Kings County	Amount Requested:	\$750,000
		Requested Loan Term:	15 years
		Date Requested:	February 26, 2009
		Resolution Number:	HII-235
Project Site:	492 East Hanford-Armona Road, Hanford, CA 93230 or proposed street number assigned by the City		
Facility Type:	Adult Day Care Center		
Prior HELP II Borrower:	No.		

Background: Established in 1965, KRC is a licensed nonprofit Adult Day Care Center. KRC's mission is to enhance the lives of adults with developmental, physical and emotional disabilities by providing employment opportunities, vocational training and recognizing their clients' importance and involvement in the community.

Uses of Loan Proceeds: KRC intends to construct a new Adult Day Care Center on its main property to relieve overcrowding at its current facility, as well as to provide for additional capacity.

Financing Structure

- 15-year loan.
- 180 equal monthly payments of approximately \$5,179 (yearly payments of approximately \$62,148).
- Gross revenue pledge.
- First (1st) lien on vacant land currently known as APN 012-232-077, Hanford, CA 93230.
- Loan to value ratio not to exceed 95% (estimated loan to value ratio of 61%).

Financial Overview: KRC's appears to exhibit a solid financial position. KRC's income statement appears to exhibit considerable growth in fiscal years 2006 through 2008 and KRC's balance sheet appears to be solid with approximately \$3.67 million in total net assets, good liquidity and minimal long-term debt. The proforma debt service coverage ratio for the proposed HELP II loan is an impressive 13.98x.

Sources of Funds

HELP II Loan	\$750,000
Borrower Funds	<u>200,000</u>
Total Sources	<u>\$950,000</u>

Uses of Funds

Construction of new facility	\$938,625
Financing Costs	<u>11,375</u>
Total Uses	<u>\$950,000</u>

Legal Review: No information was disclosed to question the financial viability or legal integrity of the Applicant.

Staff Recommendation: Staff recommends the Authority approve a resolution for a HELP II loan for Kings Rehabilitation Center, Inc. in an amount not to exceed \$750,000 for a term not to exceed 15 years, and contingent upon financing terms acceptable to the Authority.

**STAFF SUMMARY AND RECOMMENDATION
THE HELP II PROGRAM**

February 26, 2009

Kings Rehabilitation Center, Inc. ("KRC")

Resolution Number: HII- 235

I. PURPOSE OF FINANCING

Construct Facility \$ 938,625

KRC intends to construct a new 6,500 square foot Adult Day Care Center situated on 6 acres (currently owned by KRC and unencumbered), located at 492 East Hanford-Armona Road in Hanford, CA or proposed street number assigned by the City. This new facility will nearly double the space available for KRC's clients and will also allow for the accommodation of autistic individuals who require more privacy. Clients served will increase from 29 to 45 at the new facility. KRC currently has a waiting list of clients which demonstrates a high demand for its services. The proposed site is strategically located adjacent to KRC's existing facility. KRC plans to utilize the existing facility for an Adult Development Program for autistic individuals. The construction project is expected to commence in April 2009 and be completed by April 2010.

KRC has offered to secure the loan with another property rather than securing the loan with the proposed project site. The proposed HELP II loan will be secured by a first lien position on nearby vacant land currently known as APN 012-232-077, Hanford, CA 93230. Based upon a recent appraisal provided to CHFFA, the current market value of the land (35 acres) is approximately \$1.225 million, leading to a loan to value ratio of 61%.

Financing Costs 11,375

Authority Fees..... 9,375
Title and Escrow..... 2,000

Total Uses of Funds \$950,000

II. FINANCIAL STATEMENTS AND ANALYSIS

Kings Rehabilitation Center, Inc.

Statement of Activities

Unrestricted

	For the Year Ended June 30,		
	2008	2007	2006
Revenue and support:			
Public support	\$ 6,348	\$ 15,502	\$ 3,142
Program service fees	4,738,062	4,577,923	4,313,242
Rent income	67,117	67,347	59,827
Interest income	27,700	17,116	2,832
Gain on sale of assets and investments	-	-	41,657
Other income	358,120	73,548	261,779
Total revenue and support	<u>5,197,347</u>	<u>4,751,436</u>	<u>4,682,479</u>
Expenses:			
Salary, wages, employee benefits	3,103,495	2,935,815	2,042,220
Cost of goods sold	-	-	1,243,138
Conference and training	16,877	14,021	21,222
Depreciation	225,755	197,134	156,470
Dues and publications	-	-	25,421
Dump fees	2,986	8,274	17,641
Employment costs	71,447	59,252	29,485
Equipment rental	2,779	6,284	43,410
Insurance	267,604	324,187	216,027
Occupancy	55,903	59,177	74,188
Other	20,349	18,368	31,807
Professional fees	85,403	81,110	34,889
Repairs and maintenance	142,820	125,379	127,699
Supplies	243,973	250,980	178,623
Telephone	27,147	33,675	22,835
Transportation	140,749	118,681	115,117
Total expenses	<u>4,407,287</u>	<u>4,232,337</u>	<u>4,380,192</u>
Change in unrestricted net assets	790,060	519,099	302,287
Unrestricted net assets, beginning of year	<u>2,886,497</u>	<u>2,367,398</u>	<u>2,065,111</u>
Unrestricted net assets, end of year	<u>\$3,676,557</u>	<u>\$2,886,497</u>	<u>\$2,367,398</u>

Kings Rehabilitation Center, Inc.

Financial Position

	As of June 30,		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
ASSETS:			
Current assets:			
Cash and cash equivalents	\$791,009	\$962,836	\$712,538
Certificates of deposit	839,551	243,492	-
Accounts receivable	567,082	560,275	474,259
Inventories	5,222	5,069	6,014
Prepaid expenses	11,698	24,424	36,133
Total current assets	<u>2,214,562</u>	<u>1,796,096</u>	<u>1,228,944</u>
Property and equipment	1,679,172	1,537,355	1,538,096
Construction in progress	205,701	-	-
Total assets	<u>\$4,099,435</u>	<u>\$3,333,451</u>	<u>\$2,767,040</u>
LIABILITIES AND NET ASSETS:			
Current liabilities:			
Accounts payable and accrued expenses	\$304,181	\$201,050	\$182,620
Current obligation under capital lease	10,422	10,422	-
Deferred revenue	-	133,053	133,053
Accrued vacation payable	93,410	77,141	82,699
Security deposits	1,270	1,270	1,270
Total current liabilities	<u>409,283</u>	<u>422,936</u>	<u>399,642</u>
Obligation under capital lease	13,595	24,018	-
Total liabilities	<u>422,878</u>	<u>446,954</u>	<u>399,642</u>
Unrestricted - total net assets	3,676,557	2,886,497	2,367,398
TOTAL LIABILITIES AND NET ASSETS	<u>\$4,099,435</u>	<u>\$3,333,451</u>	<u>\$2,767,040</u>

Financial Ratios:

**Proforma (a)
FYE June, 2008**

Debt service coverage (x)	13.98	96.62	367.73	N/A
Debt/Unrestricted Net Assets (x)	0.21	0.01	0.01	0.00
Margin (%)		15.20	10.93	6.46
Current Ratio (x)		5.41	4.25	3.08

(a) Recalculates 2008 audited results to include the impact of this proposed financing.

Financial Discussion – Statement of Activities (Income Statement)

KRC's income statement appears to exhibit considerable growth in fiscal years 2006 through 2008.

KRC experienced positive operating results with increasing net income over the past three fiscal years, along with continued revenue growth from existing and recently obtained contracts from Naval Air Station Lemoore, Kings Area Rural Transport, Sears, Kings County and the City of Corcoran. KRC has posted increases in unrestricted net assets for all three years during our review period, improving an average of approximately 60% per year

Particular Facts to Note:

- In FY 2008, KRC enjoyed their most successful year during the review period with an increase in unrestricted net assets of \$790,000, a 52% increase compared to FY 2007. Newly acquired contracts were internally restructured to be more efficient by eliminating those deemed not cost effective, thus increasing profits.
- Other income in FY 2008 includes \$133,000 from an insurance claim that was reclassified from the balance sheet to the income statement. KRC also received a grant from the California Department of Transportation to purchase six vehicles to transport clients.
- In FY 2007, salaries, wages and employees benefits increased as KRC obtained a large contract with International Paper which required additional employees to accommodate the heavy workload. The contract was dissolved in August 2008.

Financial Discussion – Statement of Financial Position (Balance Sheet)

KRC's balance sheet appears to be solid with approximately \$3.67 million in total unrestricted net assets.

In 2008, KRC's balance sheet appears solid with good liquidity of over \$790,000 in cash and cash equivalents and a current ratio of 5.41x. KRC's proforma long-term debt to unrestricted net assets is a very low 0.21x, indicating low leverage. KRC has very minimal long-term debt and currently possesses a solid proforma debt service coverage ratio of 13.98x. KRC should be able to comfortably repay the proposed HELP II loan.

Particular Facts to Note:

- Cash decreased to \$790,000 in FY 2008 from \$963,000 in FY 2007 as KRC used cash to construct a new administration building. Accounts payable increased in FY 2008 as a result of the new construction costs and deferred payments to contractors.

- Deferred revenue posted in FY 2006 and 2007 of \$133,000 resulted from payments from fire damage sustained to a thrift store owned and operated by KRC.

III. UTILIZATION STATISTICS

**Clients Served
Fiscal Year Ended June 30**

	2008	2007	2006
Totals	169	174	152

IV. ORGANIZATION

Background

Kings Rehabilitation Center, Inc. is a non-profit organization incorporated in 1965. The center is located in Hanford, California and operates programs to assist persons with developmental, physical and/or emotional disabilities in coping with challenges in vocational skills, basic education, independent living, and social and recreational needs. The center's basic support is derived primarily from various fee for service contracts and charges for services performed by disabled individuals and state program fees.

KRC programs emphasize improvement and development through the following programs at three sites:

- Adult Development Program: provides adults with severe disabilities the opportunity to develop personal, social and behavioral skills.
- Day Training Activity Center: provides adults with mild to moderate disabilities the opportunity to develop personal, vocational, social and behavioral skills.
- Habilitation: provides evaluation, job skills development, extended employment, off-site employment, living and a supportive environment.
- Supported Employment: offers paid work opportunities, based on productivity, in a variety of working settings for individuals with developmental disabilities.

Licenses

KRC is licensed by the State Department of Social Services to operate and maintain an Adult Day Care Center.

V. OUTSTANDING DEBT

<u>Date Issue:</u>	<u>Original Amount</u>	<u>Amount Outstanding* as of 6/30/2008</u>	<u>Estimated Amount Outstanding After Proposed Financing</u>
Existing Long-Term Debt:			
Equipment Lease, 2007	\$44,000	\$24,017	\$24,017
Proposed:			
CHFFA HELP II, 2009		N/A	750,000
TOTAL DEBT		\$24,017	\$774,017

*Includes current portion of long-term debt.

VI. DUE DILIGENCE:

Due diligence has been completed with regard to the following items:

- Savings Pass Through: KRC has provided a description of its savings pass through in **Exhibit A**.
- Section 15459.1 of the Act (Community Service Requirement): KRC has executed this certification indicating that Medi-Cal and Medicare patients are accepted. A copy of the certification is provided as **Exhibit B**.
- Religious Due Diligence
- Legal Review

VII. STAFF RECOMMENDATION

Staff recommends the Authority approve a resolution for a HELP II loan for Kings Rehabilitation Center, Inc. in an amount not to exceed \$750,000 for a term not to exceed 15 years, and contingent upon financing terms acceptable to the Authority.